

VECTREN Energy Delivery



Winter Outlook

October 18, 2006

Presented to:

Indiana Utility Regulatory Commission

Vectren attendees

- Ron Christian – EVP, CAO, General Counsel and Secretary
- Jerry Ulrey – VP, Regulatory Affairs and Fuels
- Doug Karl – VP, Marketing and Customer Service
- Mike Roeder – Director, Corporate Communications/Government Affairs
- Perry Pergola – Director, Gas Supply

Topics

1. Key Issues
2. U.S. gas supply
3. Vectren's gas procurement approach
4. Winter bill projections
5. Tools to help manage winter bills
6. Transportation service for schools
7. Customer Service

Vectren's Service Area

Vectren Energy Delivery of Indiana – North

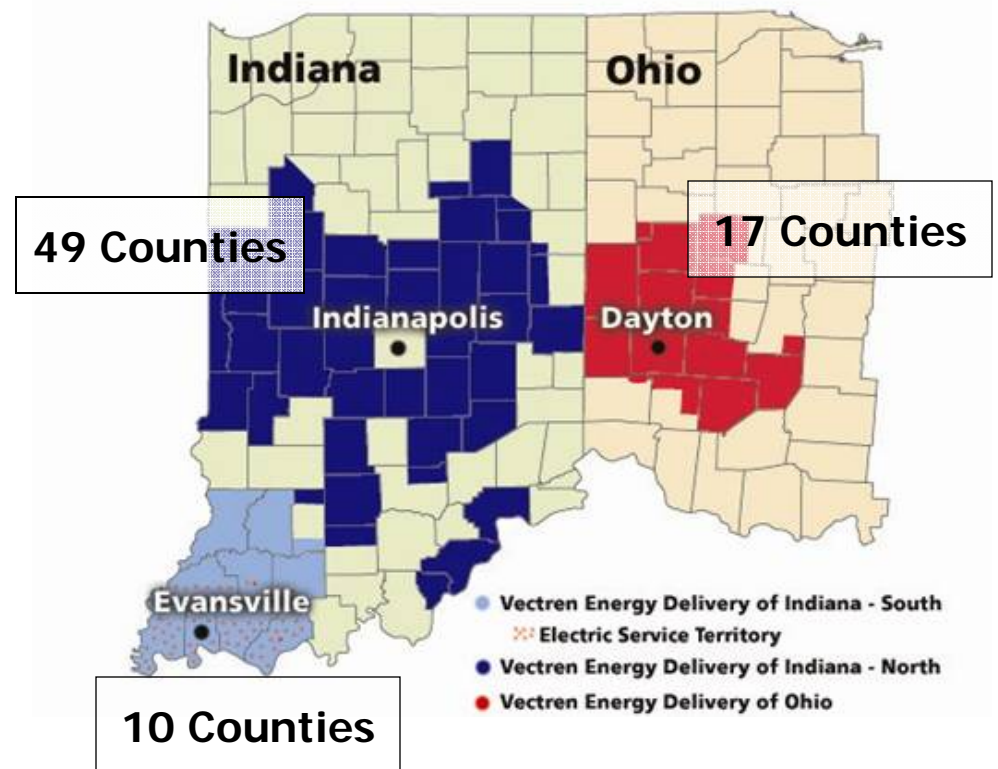
- 562,000 gas customers

Vectren Energy Delivery of Indiana – South

- 112,000 gas customers
- 140,000 electric customers

■ Vectren Energy Delivery of Ohio

- 318,000 gas customers

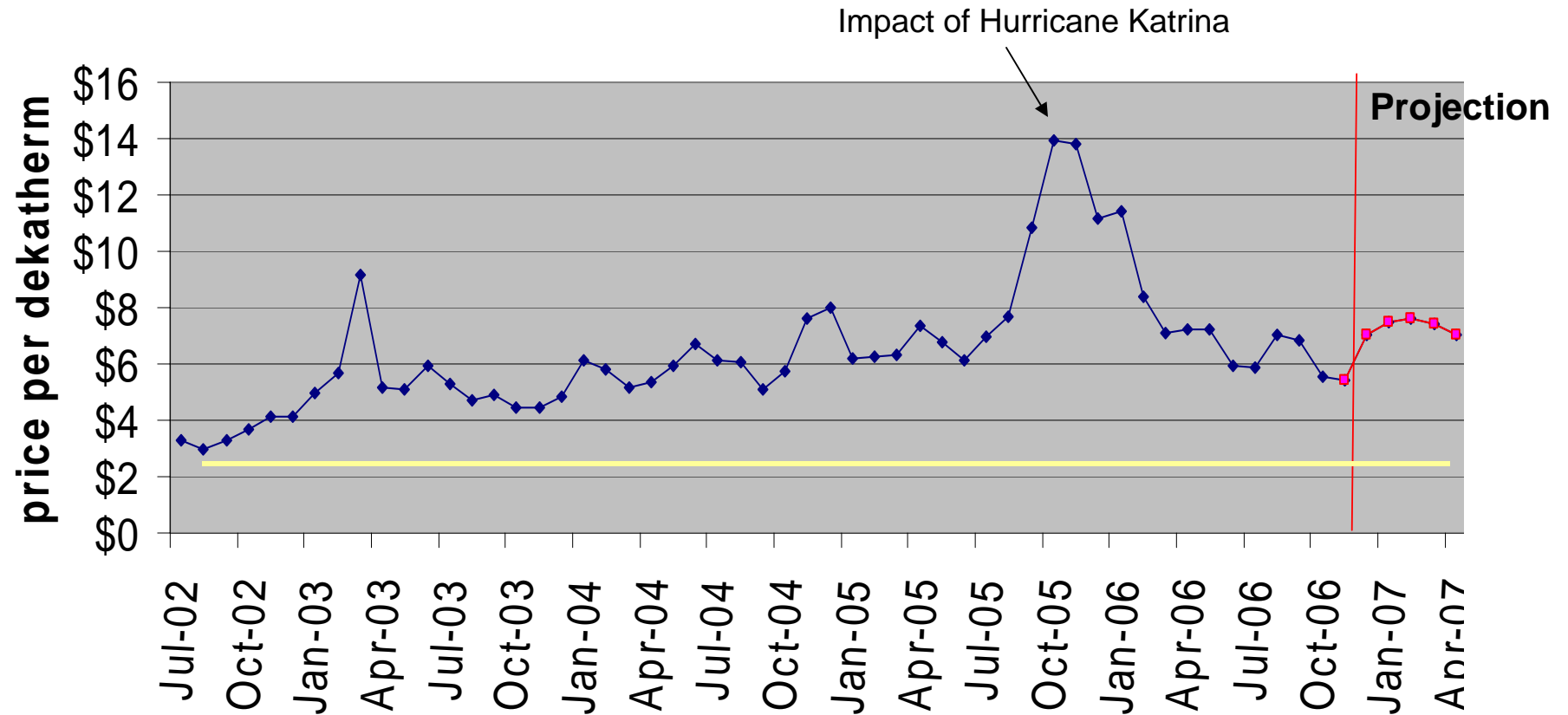


Key Vectren Issues

- Continuing volatility and high cost of natural gas
 - Impacts on customers and recovery of costs
- Continuing decline in average use per customer
 - Conservation programs, decoupling
- Regulation of synthetic natural gas from coal gasification
- Aging workforce
- Aging infrastructure
- Mandated cost of transmission and distribution integrity management programs

Natural Gas Pricing

Historic NYMEX natural gas pricing

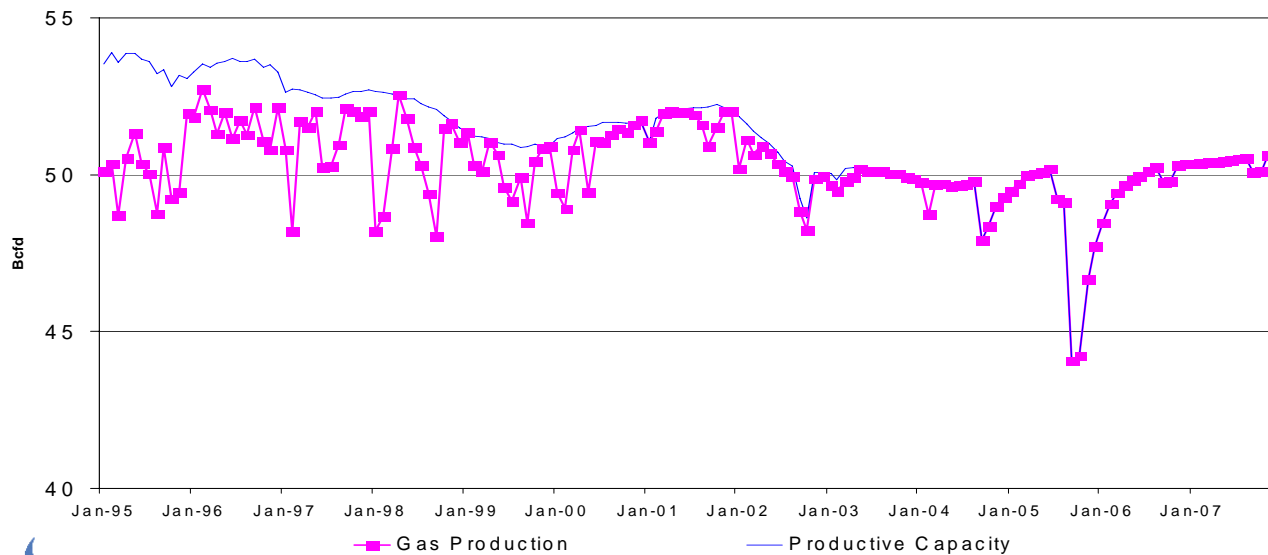


NYMEX – Market close, September 28, 2006

Supply and Demand

Lower-48 Dry Gas Production vs. Dry Gas Productive Capacity

Source: Energy and Environmental Analysis, Inc.



Summer 2005 Hurricanes

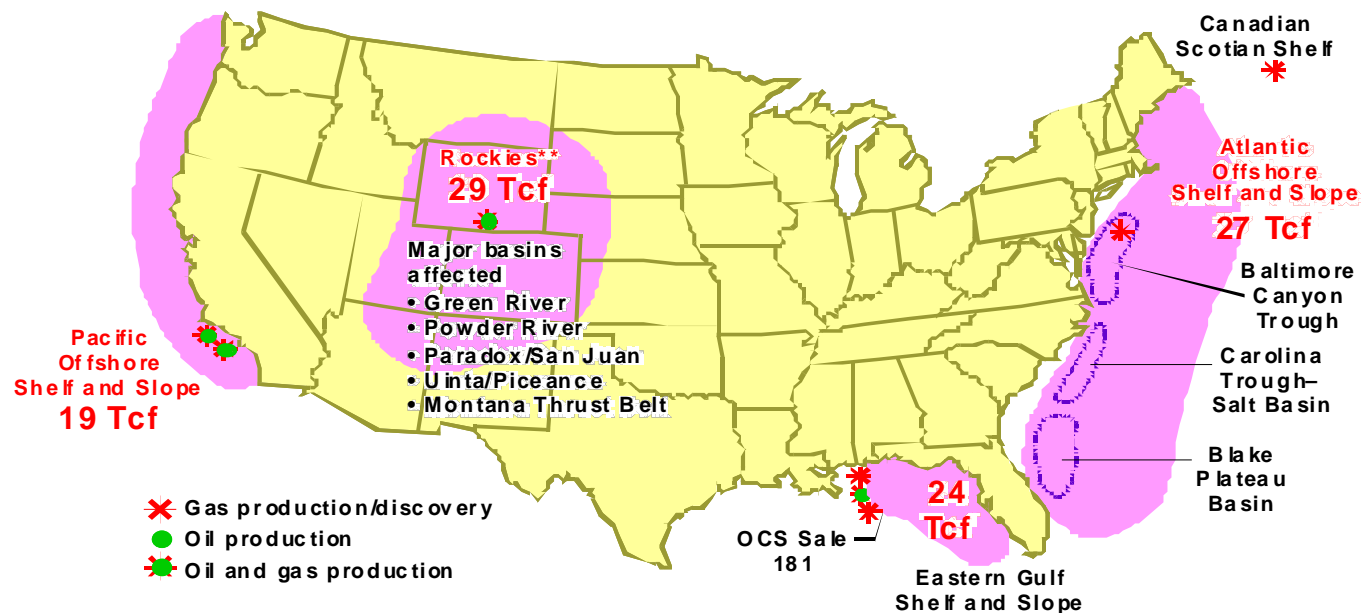
Damaged Production Assets



Drilling Access Restrictions

66

US Lower-48 Undiscovered Gas Resources Subject to Access Restrictions*



Source: Cambridge Energy Research Associates.

Note: 20.7 Tcf have restrictions or are off limits:

* 9.9 Tcf are off limits for exploration and development.

** An additional 10.8 Tcf of the Rockies gas resources are available with restrictions.

May 2003

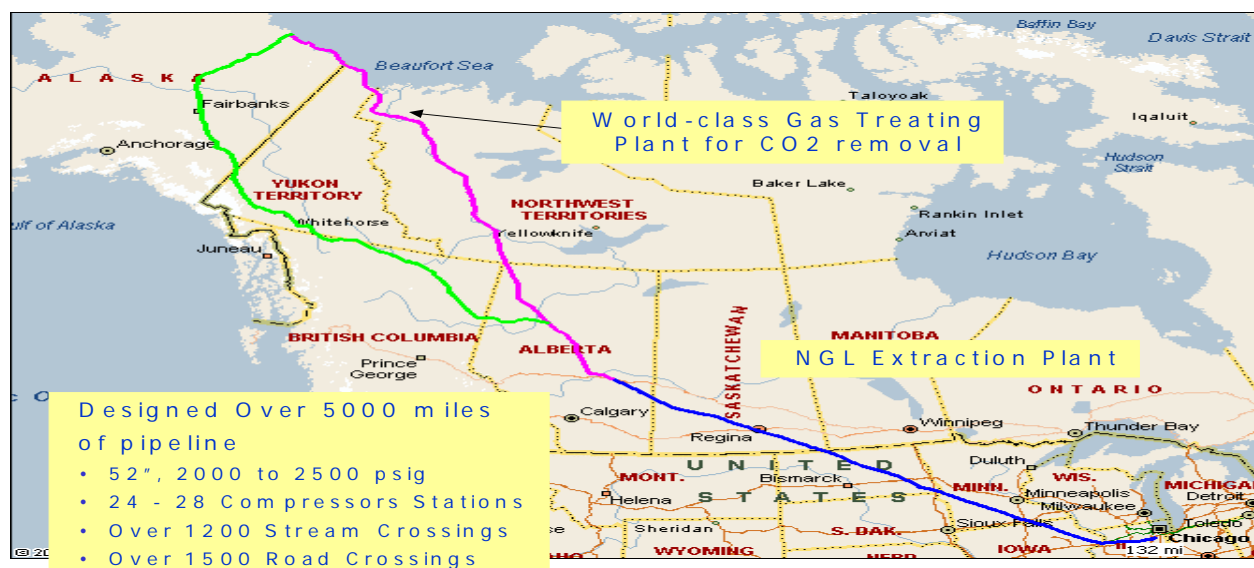
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Alaskan Gas Supply

ALASKAN GAS IS
READY AND WAITING



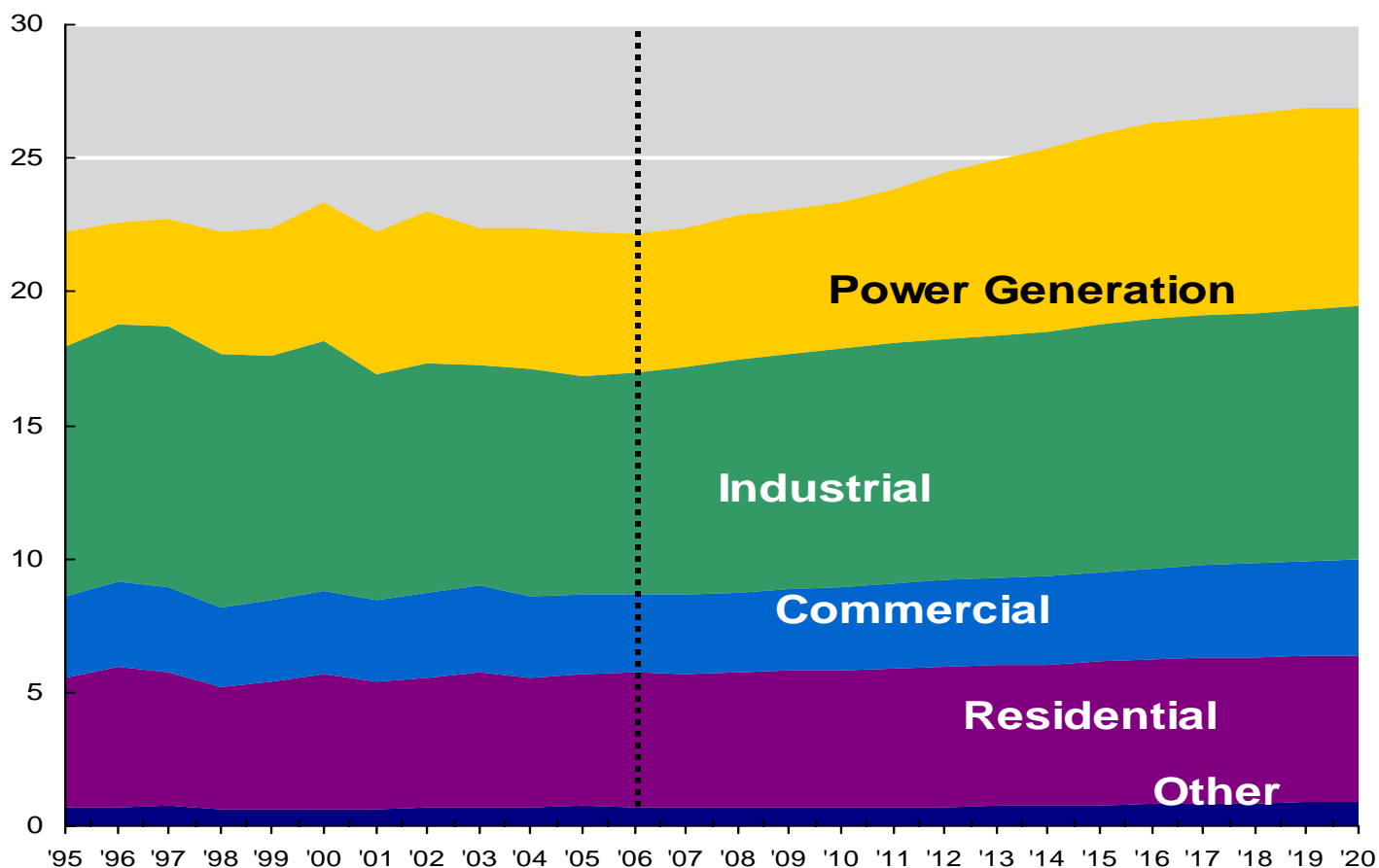
Source: BP



Gas Consumption Could Grow By More Than 20% By 2020

Gas Consumption

(Trillion Cubic Feet, Tcf)



AGA Recommended Actions

What Can We Do?

- ◆ Promote energy efficiency and conservation
- ◆ Encourage the development of storage
- ◆ Encourage balance between economic and environmental values
- ◆ Diversify sources of power generation
- ◆ Encourage Alaskan supply
- ◆ Encourage LNG supply



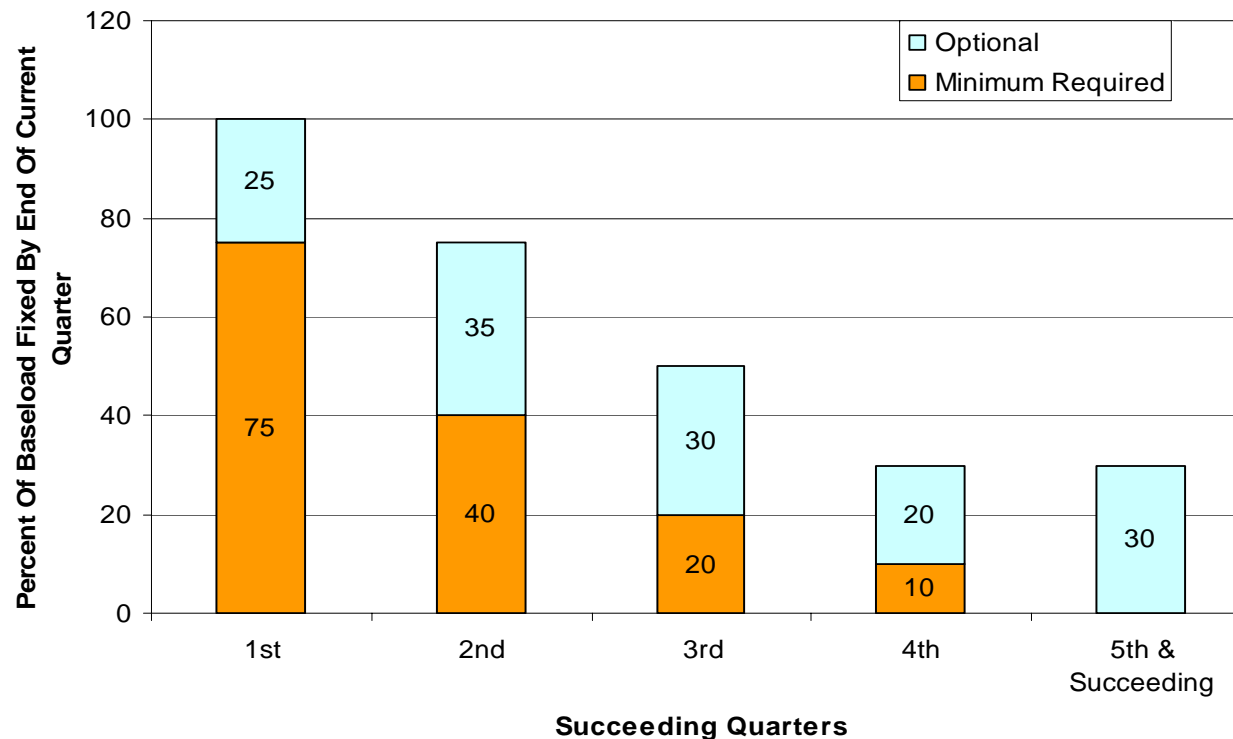
Vectren's Portfolio Approach to Gas Supply Acquisition

- Objectives
 - Mitigate price volatility for the gas sold to customers
 - Purchase reliable gas supply
- Targets
 - Hedge 65% of annual purchases and at least 75% of winter deliveries to customers
- Components
 - Storage Gas
 - Advance Purchases
 - Financial Hedges
 - Market Purchases in Month of Delivery

Sources of Supply for Winter Deliveries

	<u>Vectren North</u>	<u>Vectren South</u>
Winter Season		
Storage	42%	42%
Advance Purchases	33%	38%
Market Purchases	25%	20%
Peak Day		
Storage	51%	62%

Advance Purchases - Time Triggers



- Min-Max Time Triggers are used to achieve a dollar cost averaging result
- Quarterly triggers - purchases may be made 5 or more quarters in advance of month of delivery
- Monthly triggers – 85-92% must be fixed by start of month in 1st Qtr

Advance Purchases for the Winter Season

VECTREN NORTH

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Volumes Fixed	2,059,970	3,800,166	2,750,165	1,949,920	550,033
Percent Fixed	90%	80%	58%	52%	26%
Average Cost / Dth	\$6.74	\$7.75	\$8.75	\$8.79	\$8.83

VECTREN SOUTH

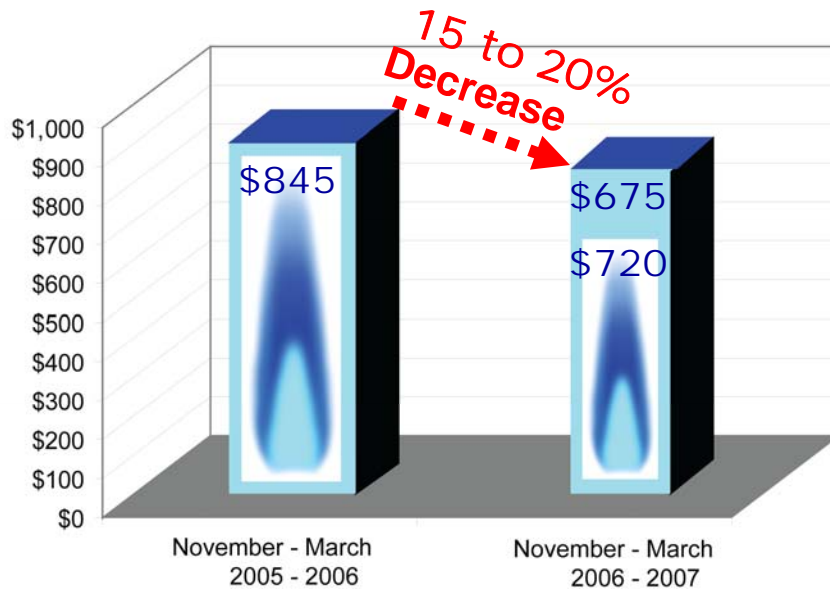
	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
Volumes Fixed	600,030	670,065	560,046	409,976	230,020
Percent Fixed	75%	74%	56%	49%	33%
Average Cost / Dth	\$7.86	\$8.87	\$9.72	\$9.77	\$9.94

Recent Natural Gas Price Projections

	9/28/2006 <u>NYMEX</u>	Oct-06 <u>EIA</u>	9/25/2006 <u>Private</u>	<u>Average</u>
Nov-06	\$5.39	\$ 7.00	\$ 6.00	\$ 6.13
Dec-06	\$7.04	\$ 7.50	\$ 7.70	\$ 7.41
Jan-07	\$7.50	\$ 7.75	\$ 7.70	\$ 7.65
Feb-07	\$7.59	\$ 7.75	\$ 7.50	\$ 7.61
Mar-07	\$7.45	\$ 7.00	\$ 7.00	\$ 7.15
Winter Average	\$6.99	\$ 7.40	\$ 7.18	\$ 7.19

Winter Heating Season - Bill Projections

Vectren North



Estimated 5-month average bill based on normal consumption and normal winter weather

Vectren South



Hoosiers still challenged to pay

- Average household income in Vectren territory – \$39,727
- Family of four LIHEAP-eligible (at 150%) – \$30,000
- Currently serve 29,700 LIHEAP customers
- Hoosiers will continue to be challenged to pay – even with the decrease in commodity cost

Assistance programs

LIHEAP federal funds

- Total: \$8.1 million 29,700 Households assisted

Share the Warmth

- Funds being distributed:
 - \$500,000 Vectren contribution
 - \$110,000 Public and Vectren matching funds

2005 Fall Turn On Program (Vectren GCA 50 settlement funds)

- Total: \$300,000 1,072 Households assisted

Universal Service Program

- Last heating season:
 - Total credits: \$5.4 million 29,200 Households assisted

Help Thy Neighbor

- Total: \$1.4 million 7,171 Households assisted
- Vectren Contribution: \$350,000

Ways customers can manage bills

Budget Bill

- Remain at +22% enrollment
 - Current Vectren North 126,000
 - Current Vectren South 13,000
- Summer 2006: Campaign for customer to stay on Budget Bill during the summer
 - Win a \$500 VISA gift card
 - Decreased only 3 to 4% during the summer
- Currently running \$500 gift card campaign to encourage additional enrollment
 - Bill inserts, web and e-marketing efforts



Conservation

- Vectren has proposed conservation programs to assist customers with energy efficiency and reduce their monthly consumption of natural gas

Communication efforts for managing bills

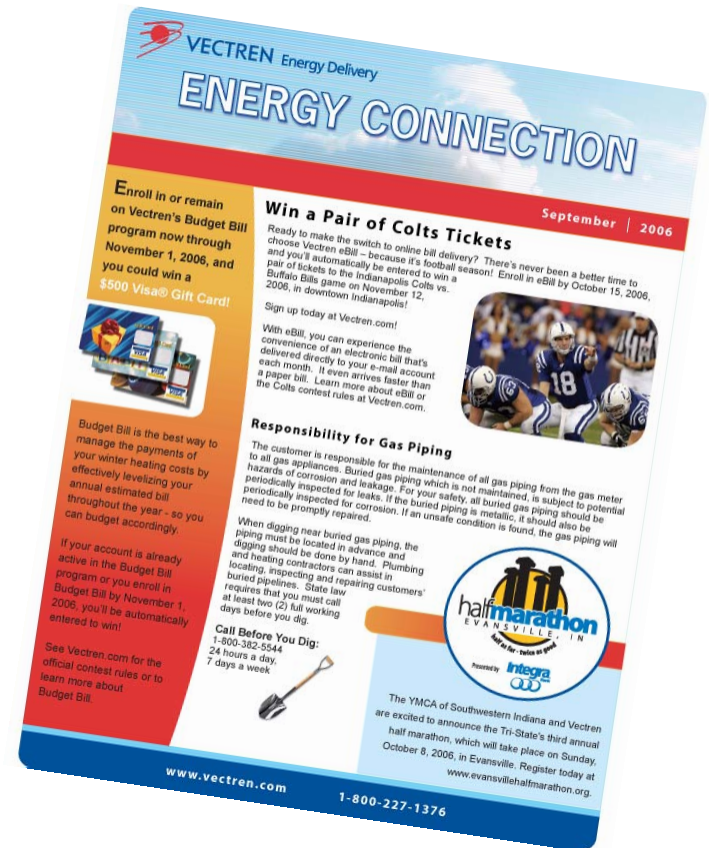
Energy efficiency tips

- Bill insert
 - New design, 4-color newsletter: “Energy Connection”
- Web site
 - Quick links to efficiency tips

Speakers bureau

Employee communications

Media outreach



New bill insert

Vectren weatherization efforts

Programs for Low-Income Customers (2005)

- 98 customers were weatherized leveraging USP, state and federal funding
- 109 customers received furnace replacements

North Gas “DSM” Pilot Programs

- Targeted Income Program
 - Served Vigo County customers between 150-200 % of poverty
 - 22 homes received complete home weatherization services
- Efficient Heating Initiative
 - 90+% AFUE furnaces and programmable thermostats were promoted through the \$100 rebates (for purchase and installation of the furnaces)
 - 696 furnaces and 181 programmable thermostats installed
 - No income eligibility requirements
 - Rebates were administered by third party

New School Transportation Program

- Vectren tariffs approved August 9, 2006
 - Made transportation service available for school accounts not previously eligible
- New programs become effective November 1, 2006
 - Meetings with schools and potential suppliers in September
- Vectren North
 - 1,362 school accounts
 - 38 transporting under pre-existing rate schedules
 - 299 enrolled to date in new program
- Vectren South
 - 208 school accounts
 - 8 transporting under pre-existing rate schedules
 - 0 enrolled to date in new program
- Expect participation to increase

Customer Service – Contact Center Metrics

- Average Speed of Answer
 - 2005 3:25
 - 2006 0:59 (through September 30)
- Abandonment Rate
 - 2005 9.3%
 - 2006 3.6 % (through September 30)
- Improvements attributed to:
 - Hiring of additional contact center representatives
 - Technology improvements offering customers more “self-service” alternatives
 - Implementation of “virtual hold” technology enhancements

Internet-based Customer Service Tools

- Wide variety of information available to customers at vectren.com
 - Regulatory information, including tariffs
 - Billing and payment options
 - Safety tips
 - Energy tips
 - Economic development
 - Order/transfer service
 - FAQ's
 - Other company information

Customer Satisfaction

Vectren Survey Results

	<u>Residential Perception</u>	<u>Residential Service Work</u>	<u>Avg. Speed of Answer</u>	<u>Avg. Abandon Rate %</u>
YTD 9/2006	93%	93%	59 seconds	3.6%

JD Power & Associates 2006

Residential Gas Survey

	<u>Midwest Region Median</u>	<u>Vectren*</u>
Overall Customer Satisfaction Index	613	614

* includes Vectren Ohio operations

Summary

- Natural gas prices will likely be lower this winter compared to last, but remain at high levels.
- Vectren has and will continue to help those struggling to pay.
- Given the paradigm shift in commodity costs over the last 5 years -- creative, collaborative regulation must continue to be our sharp focus.



VECTREN Energy Delivery



www.vectren.com